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Weekly Commentary, Selected Financial Data, and Business Indicators

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Wage Rises For Organized Labor . . .

After a year of light bargaining activity, more than 40 per cent of organized labor will be negotiating new contracts in 1982. Ordinarily such a development would presage a year of sharply rising labor costs and frequent strikes as workers attempt to recoup lost purchasing power due to inflation. However, the current downturn in economic activity in general and the dismal condition of many industries in particular are expected to curtail labor's demands. A substantial moderation in wage demands to single-digit rates may well occur, while the incidence of strikes is expected to decline.

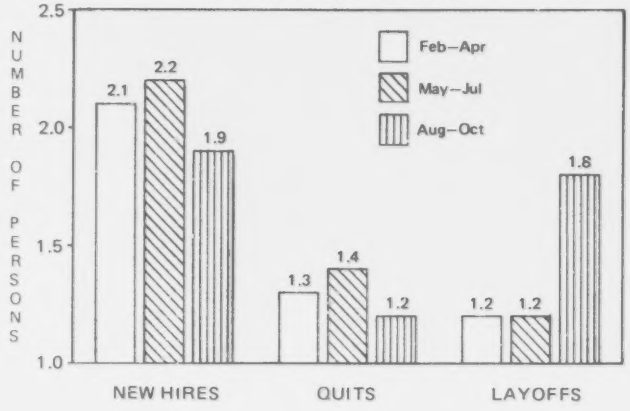
Until now, wage negotiations have focused primarily on the rate of inflation, excluding such market forces as industry or individual company profitability, productivity and competition from less expensive imports. This has been especially true in the auto, steel, rubber and apparel industries. However, in 1982 many companies will be asking their employees to look at these market forces when their contracts come up for renegotiation. In doing so, some will offer raises below the rate of inflation, while others will ask labor to actually give back some previously won wage increases, fringe benefits and work-rule improvements. The alternatives, they may argue, would be massive layoffs or complete plant shutdowns.

In the private nonfinancial sector, while productivity grew at an average rate of 0.3 per cent per annum during the three years ending in 1980, compensation per hour jumped by 9.3 per cent and total compensation advanced by 12 per cent per year. As a result, these wage gains translated into an average annual increase of nine per cent in unit labor costs. This was one of the reasons why many of our products were priced out of the market. It also contributed to the sharp rise in the rate of inflation.

. . . Will Slow In 1982 . . .

Because of the protracted slump in economic activity, labor has already become more receptive to management's initial proposals than in previous years. This year's strike activity was the lowest in ten years. In October, for example, idleness due to worker walkouts as a per cent of estimated available working time fell to 0.06 per cent (less than one idle day per one thousand), which was the lowest rate for any October since World War II. The number of days lost was low despite the strike by almost 12,000 air-traffic controllers and two other major unions involving about 30,000 workers. These three walkouts alone were responsible for 55 per cent of all idle days in October and represented almost one-half of all striking workers.

LABOR TURNOVER IN MANUFACTURING: AVERAGE NUMBER OF NEW HIRES, QUITS AND LAYOFFS PER 100 EMPLOYEES IN 1981



As unemployment worsened, people began to place more emphasis on job security. The quit rate by employees, which indicates labor's perception of other job opportunities, showed that labor has become more pessimistic in the past three months (see chart) than during the preceding six months. In fact in October, the quit rate dropped to 1.1 employees per 100—the lowest rate in 20 years. Meanwhile, layoffs surged in October, especially in the manufacturing sector. About 2.3 workers per 100 lost their jobs compared with 1.7 a month earlier and only one per 100 in July.

. . . As Employment Prospects Worsen . . .

Ominously, the number of unemployed rose to nine million in November, which was the highest number in over 40 years. It represented 8.4 per cent of the labor force, and there are indications that it will climb even higher in early 1982. What is more,

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almost five million people were forced to work part-time for economic reasons, as their full-time work schedule was cut, or they could not find full-time jobs.

During the first nine months of this year, major collective bargaining settlements reached in private industry provided wage adjustments averaging 11.5 per cent for the first year of contract—the largest increase in ten years. In addition, 21 per cent of these workers will receive cost-of-living adjustments during the life of their contracts, averaging slightly under three years.

However, a large part of this sharp gain was a result of wage increases received only in one industry. Almost 40 per cent of all settlements covered workers in the construction sector, who received wage adjustments averaging 13.9 per cent, compared with a 10.1 per cent gain in other industries. Most of these construction workers were not involved in building single-family homes but rather in multi-unit and nonresidential construction, including such public works as highways, sewers and water projects.

In manufacturing, the total effective gain in wages which includes settlements, deferred increases negotiated in earlier periods and cost-of-living adjustments has actually slipped so far this year compared with last year. During the first nine

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/25/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	135.444	+ .649	+ 5.211
Loans to Depository Inst.	.337	– .224	– 1.878
Float	3.327	– .096	+ .118
Total Reserve Bank Credit	149.153	– .147	+ 7.030
Treasury Deposits with Federal Reserve Banks	2.841	– .374	– .105
Currency Outside Banks	126.629	+ .528	+ 5.664
Member Bank Reserves:			
Required	40.753	– .213	+ .758
Excess (Deficiency)	.060	– .134	– .257
Total Reserves Held	40.813	– .347	+ .501
Net Borrowed Reserves	.208	– .057	– 1.575
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	93.999	– .960	+ 3.763
Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1-B	436.4	+ 2.5‡	+ 3.8‡
M2 (October '81)	1,798.9	+ 8.8	+ 8.8
M3 (October '81)	2,143.5	+ 9.5	+ 11.2
L (July '81)	2,519.4	+ 10.0	+ 11.3

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 12/4/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	10.00%	10.26%	10.24%
* Federal Agencies	10.00	11.10	11.35
* Project Notes–Taxfree (46% Taxable Equivalent)	11.85	12.04	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	11.30	11.63	12.63

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	11.00%	Jan.	11.00%
15- 29 days	11.00	Feb.	11.00
30- 59 days	11.38	Mar.	11.00
60- 89 days	11.13	Apr.	11.00
90-179 days	10.75	May	11.00
180-239 days	10.00	Jun.	11.00
240-270 days	10.00		

‡Industrial Paper–Prime		†Federal Funds	
30- 89 days	11.30%	Effective Rate	11.65%
90-120 days	11.00		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'81	$ 2,957	$ 2,886	$ 2,637
Gross National Product (1972 Dollars)*	3rd Q'81	$ 1,513	$ 1,510	$ 1,472
Percent Change, Annual Rate	3rd Q'81	0.6	– 1.6	2.4
Change in Consumer Prices (all urban consumers)*	Oct '81	4.8%	14.4%	12.0%
Change in Producer Prices*	Oct '81	7.2%	2.4%	10.8%
Civilian Employment (Thousands of Persons) †	Nov '81n	98,025	98,217	97,339
Unemployment as % of Civilian Labor Force †	Nov '81n	8.4%	8.0%	7.5%
Personal Income*	Oct '81	$ 2,477	$ 2,462	$ 2,234
Leading Indicators Composite Index (1967=100) †	Oct '81n	128.1	130.4	135.0
Industrial Production Index (1967=100) †	Oct '81	149.5	151.8	146.6
Net Change in Consumer Installment Credit †	Sept '81	$ 2.82	$ 2.86	$ 1.06
U.S. Merchandise Trade Balance †	Oct '81n	–$ 4.19	–$ 1.57	–$ 1.13
Plant and Equipment Expenditures*	4th Q'81	$332.69(a)	$322.88(a)	$299.58
Private Housing Starts (Thousands of Units)*	Oct '81	857	920	1,519
New Construction Expenditures*	Oct '81n	$ 230.8	$ 234.7	$ 228.9
Total Business Inventories†	Sept '81	$ 507.2	$ 502.5	$ 471.5
Total Business Sales †	Sept '81	$ 354.2	$ 352.8	$ 327.8

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

months of 1981, wage increases totaled about eight per cent at an annual rate, down more than two percentage points from 1980. In the nonmanufacturing sector, excluding construction, effective wage rate adjustments also slowed, rising by one-tenth of one per cent less than they did a year ago.

. . . And Many Industries Suffer

Many contracts expiring next year will involve some of the country's weakest industries. One of the most important discussions will take place between the automobile manufacturers and more than one million United Auto Workers. Because the domestic auto industry finds itself in one of the worst slumps ever, with imports continuing to increase their market share, it may not be able to give much to its workers. While numerous concessions by workers have been already given at all three of the major companies, more will be sought, in order to increase domestic cars' competitiveness with imports.

As a result of the sluggish pace of economic activity, the need for truckers has declined and truck tonnage hauled has been recently running below year-earlier levels. Furthermore, some trucking companies' problems have been exacerbated by the deregulation of the industry and substantial competition from nonunionized truckers. As a consequence of these adverse factors, union leaders have already begun

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/18/81)	129,278	+ 1,257	+24,587
New York City (11/18/81)	31,169	+ 197	+ 5,159
Commercial Paper (11/18/81)	167,640	+ 1,410	+43,135

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/18/81)	189,678	+ 799	+19,832
New York City (11/18/81)	55,003	+ 118	+ 5,248

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/18/81)	461,585	+ 1,396	+42,415
New York City (11/18/81)	109,281	– 570	+11,503

Financial Markets

	Friday 12/4/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.32%	– .14	– 6.28
180-Day Bills†	10.93	– .19	– 5.01
Longest Bills†	11.53	+ .33	– 3.57
Recent Issues:			
12½s 11/30/83	12.13	+ .08	
15⅞s 9/30/85	13.08	+ .27	
14¼s 11/15/91	13.10	+ .28	
14s 11/15/11	12.89	+ .23	
Municipals:			
Bond Buyer–20 Bond Index* (12/3/81)	12.18%	+ .20	+ 2.34
Blue List Total ($ Million)	$ 1,251	+$ 93	+ $ 187
30-Day Visible Supply ($ Million)	$ 2,169	–$ 302	– $ 233
Total	$ 3,420	–$ 209	– $ 46
Corporates:			
Moody's Aa Composite (12/3/81)	14.68%	+ .72	+ 1.05
30-Day Visible Supply ($ Million)	$10,627	+$1,944	+ $6,689
Stocks:			
Dow-Jones Averages:			
Industrials	892.89	+ 6.75	– 63.54
Transportation	395.03	+ 5.42	– 3.25
Utilities	112.92	+ .08	– 1.32
65 Stocks	357.73	+ 3.02	– 14.05
Standard and Poor's 500 Stocks	126.26	+ .55	– 7.77
N.Y.S.E. Composite Index	73.24	+ .53	– 3.92
N.Y.S.E. Avg. Daily Vol. for Week (000's)	49,042	+ 1,542	+ 8,460

* 46% Taxable equivalent 22.56%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/4/81	Week Ago
Overnight	11.75%	11.75%
1 month	12.38	11.69
3 month	12.50	11.94
6 month	12.81	12.75
1 year	13.38	13.13
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.25%	14.00%
Long Term (7 to 15 yrs.)	14.90	14.70

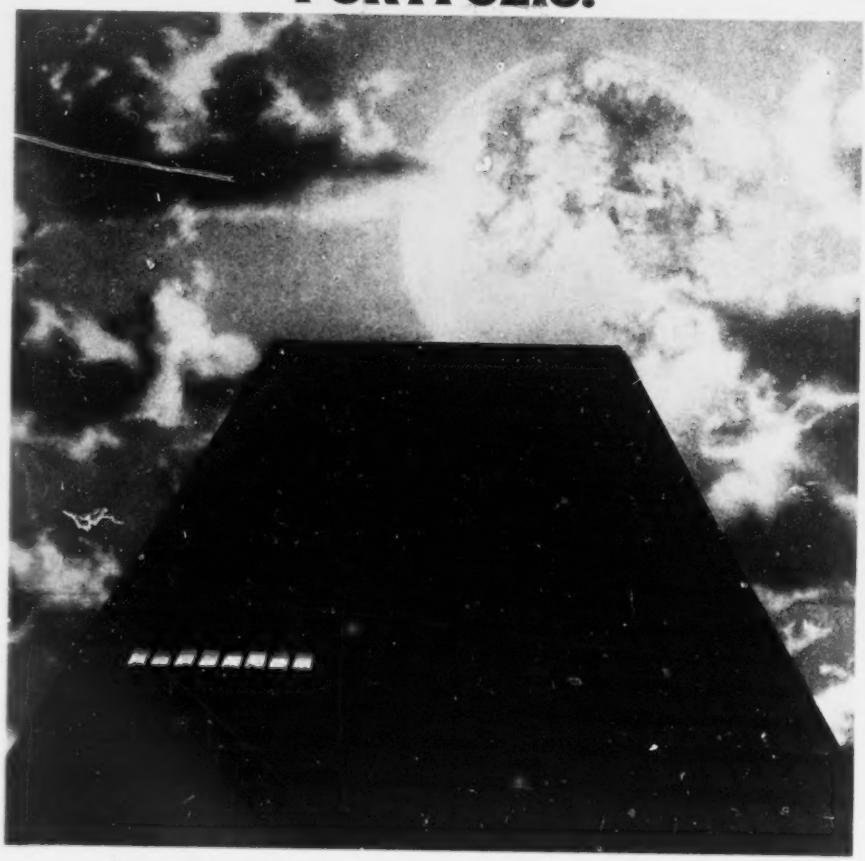
FOREIGN EXCHANGE SPOT RATES

New York Opening (12/4/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02646	37.80
Canada	.8485	1.1785
Denmark	.1394	7.1723
France	.1784	5.6045
Germany	.4500	2.2220
Italy	.0008388	1192.20
Japan	.004629	216.03
Mexico	.03861	25.90
Netherlands	.4114	2.4310
Switzerland	.5608	1.7833
U.K.	1.9505	.5127

preliminary discussions with company representatives, although their contract does not expire for another four months.

Similarly, construction workers will not be in a position to make high demands. Almost 18 per cent are currently unemployed and the housing slump does not show any signs of a significant turnaround in the near future. Finally, the rubber workers, whose contract expires next April, have already made numerous concessions in the past year at many plants. They were in the form of wage cuts, benefit reductions, deferment or elimination of cost-of-living adjustments, cuts in night shift differentials and elimination of overtime for weekend work, among others, to keep plants in operation. Although the industry's profitability has improved recently it is still adversely affected by the high cost of raw materials—most importantly petroleum—and a slide in demand by the auto industry. Additionally, the trend to smaller cars and less driving has reduced the need for replacement tires. H

THE MOONLIGHTING PORTFOLIO.



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